# The benefits of home ownership

Your guide to building a house

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## About the Authour

Graydon Kline is a builder with more than 22 years' experience in home construction and renovation. He is highly active in the Gold Coast market where he has undertaken a broad range of work from entry-level homes for investors and first-home buyers to luxury homes in some of the Gold Coast's most desirable locations. Graydon has tapped into his extensive knowledge of the construction industry to put together The Pitfalls of Building as a tool for owner-builders or those looking to build their home but don't know where to start. He is passionate about the industry but hates seeing homebuyers taken for a ride by the complex array of rules and regulations that now govern the building sector.

Home ownership may seem like an unattainable dream for many people today as the price of housing continues to rise. However, property ownership is as affordable as ever in the current low interest-rate environment.

There are many benefits that come from home ownership, not least being a better quality of life in retirement.

But if you're having trouble getting into the market, the chances are you're struggling to save for a deposit. The chances also are that you're aiming too high for your first home.

It's pretty easy to look back 20 years or so when property prices were cheaper and making a start in the market appeared a whole lot easier. But don't be fooled, because affordability these days is as good as it has ever been. It's all relative. You just have to adjust your expectations if you really want to make home ownership work for you.

## Getting started

I bought my first property when I was 21, and it took me a few years to get into the market. I was married at 19 and, between my wife and I, we saved for 18 months to put together a $20,000 deposit for our first home.

This was a lot of money to save, but we were able to achieve it because we lived with family and paid just $50 a week for room and board.

My wife and I both worked full time, but we had to show some discipline to reach our goal as quickly as we did. It meant going without many of life's luxuries, going out to restaurants and pubs are a waste of big money. Staying home and entertaining friends is a fraction of the cost of going out, and you have a lot of fun if everyone brings a plate and BYO from the bottle shop.

Unless you have parents who can help you or an aunt who has left you a fortune in her will, doing the hard yards at the beginning of the journey is going to make life a whole lot easier in years to come.

The first step in this process is to ignore the credit card. Easy credit has been one of the biggest impediments to young people saving for a home. These days it's temptingly easy to jump on a plane for a cheap overseas holiday, or to buy new clothes that are on special, or to get your hands on that "must have" new technology.

Quite often these things are just a credit-card swipe away and, in a moment of weakness, they can cruel your best intentions to save.

Put your credit card in your bottom draw and pretend you don't have it at all. This will remove temptation for those impulse purchases. As I say, it's about changing your expectations and habits, and that is never easy.

During our saving phase we stopped going out and gave up wining and dining in restaurants altogether. That doesn't mean we became hermits. Instead, we had friends over and still entertained by cooking for ourselves. It was just as much fun and so much cheaper.

Everything we owned was either hand-me-downs or second-hand. In other words, everything that we owned was fully owned – not funded by expensive credit. Nothing was borrowed and there was no interest to pay. Every penny that we earned was ours and it went towards our savings.

## Sticking to a plan

With $20,000 in the bank, we could have bought a beautiful home at the time, but that wasn't the plan. We aligned our expectations with our budget.

Our first property was a two-bedroom unit in Mermaid Waters on the Gold Coast. It wasn't fancy by any means, and in fact it was in need of improvement. That alone can give you a head start to savings because any meaningful improvement you can make to a property adds what is commonly known as "sweat equity" to your investment.

The unit was worth $72,000 in 1989 and, out of the money we saved, we were able to pay a $10,000 deposit. The remaining $10,000 was applied to stamp duty, legal costs, repainting and new carpet for the property before we moved in.

Our mortgage was $62,000 and, because we wanted to pay the loan off quickly, we maintained our very modest lifestyle and put all of our savings on the loan.

It was an exciting time. We were finally in the property market and within three years we managed to pay off the loan. Our property journey had begun.

As the property market improved we sold the unit in 1992 for $102,000, and this gave us enough equity to upgrade to a house. It also put us on the path to buying and building homes for profit.

The bank loved us. We proved that we could make repayments and we now had money behind us to take property ownership to the next level.

Certainly these were different times, so how does that strategy work in today's market?

As a qualified builder and successful property developer, my love of property has never waned over the past 25 years. I have seen this strategy work many times over, so starting now is no different to starting 20 years ago. Buying or building property for profit can work for anyone with a desire to apply what I have learned over the years.

## Back to the future

Is it possible for someone to replicate what we did in 1989, especially with prices having risen so much since then?

I see no reason why young people today can't enter the property market as we did 25 years ago and realise the Australian dream of home ownership.

Let's look at that Mermaid Waters unit we first bought. Today, that property is worth $260,000. That might be a massive price difference to what we paid in 1989, but using a basic ratio of earnings to expenditure there really isn't much difference at all.

Back in 1989 my wife and I were earning a combined income of $600 per week, petrol was 40 cents a litre and our weekly grocery bill was $100. Together we spent about $220 a week in living costs, and we certainly had much higher interest rates at 17 per cent.

Our monthly mortgage repayments were about $878.00, or $204 a week. This is the equivalent of 34 per cent of our weekly income going towards our home loan. But by paying off more each month and paying fortnightly on the loan, we had it paid off in three years, even at this super high interest rate.

Today, the average combined income is $1,200 per week. Petrol is an average of $1.55 per litre, while the average weekly food bill is over $300. However, interest rates are at an average of 5 per cent – less than a third the rate we were paying in 1989.

This low interest rate brings the cost equation about level with where it stood for me in 1989, but the biggest problem these days is saving for a deposit.

Most people find it harder to save $20,000 for a number of reasons, including high rents between $400 and $600 per week. But today's living also includes aspirational debt to acquire such things as new cars and furniture packages, along with the higher living costs, university loans and credit-card debt that meets life's incidental expenses.

There is no denying that people generally live well outside their means today, usually due to our predisposition to put lifestyle ahead of financial security.

Quite often, the need to have the best extends to choosing a first home where buyers looking for a property that has as much packed into it as their borrowings can handle.

To get into the market at the optimum level to build property wealth, it may be best to start at the bottom end of the scale. Otherwise you are just propping up bank profits year after year.

If you want to buy our unit at Mermaid Waters for $260,000, by comparison today it is actually cheaper than it was 25 years ago.

For example, if you had $20,000 for a deposit for the Mermaid Waters unit today, you would be left with a $240,000 mortgage. The mortgage payments would be $1,000 per month, which equates to $232 per week – or 23.2 per cent of your combined weekly income going towards the mortgage. Remember that this compares with 34 per cent of our income when we bought it in 1989.

Compare this with the average person who purchases a new home today with an average home loan of $500,000 and 80 to 100 per cent of the purchase financed. The monthly mortgage repayment is $2,083, which equates to $484.41 per week - or 40.4 per cent of income, based on $1,200 per week.

## Borrowing to the hilt

Many young people entering the property market today are either married or in a de facto relationship, making home ownership achievable. However, most young people fall into the trap of having limited savings, driven by the need to have everything that credit can afford them.

I've had clients who applied for full borrowings on their home, plus a furniture package and car loans. Almost 90 per cent of their income is spent on loan repayments and living expenses.

Unfortunately this leaves nothing extra to pay the mortgage down sooner. By making minimum repayments, it is the banks that get rich and keep you in debt for longer.

## Mortgage free in 10 years

The power of home ownership is swamped by the credit trap, but there is definitely a better way. It's a question of making your mortgage manageable at each step of the process, as you can own your home sooner by selling and building a number of times. If you follow the right advice, on average you should own your own home after the sixth house.

I did it in four years but, by using a disciplined approach, the average homeowner could be mortgage free within 10 years.

Let's put that into perspective. It means that in 10 years you will have no rent or mortgage to pay. Considering an average rent or mortgage of about $500 a week, you will save $26,000 a year or $520,000 over 20 years – and that's without taking inflation into account which will also mean your house is worth more in that time.

This money is yours to enjoy, and brings to light why the banks are so rich.

## Getting in without a deposit

The cost of living has made it difficult for many young people to save a deposit for their first home. That's why I have developed a "rent to own" strategy that could get you into the property market sooner without a deposit. Under this system, you pay rent for two years. This is applied to the purchase cost, leaving you with a savings record that will help you qualify for a mortgage to buy the home outright. The first-home-owners grant also applies for those who are eligible, helping you kick-start your property journey.

## Benefits of owning your own home

I've had many discussions with both young and older tradies on building sites on the subject of home ownership, and I am always surprised when they say they are better off renting than buying a property.

TV commentators often promote the share market, arguing that if you regularly invest and compound your money you will be in the same position as someone who owns a property.

Unfortunately this is wrong. It doesn't take into account the tax implications of share ownership, nor the risk that can be involved in buying shares in the wrong company.

When you sell your shares the profits are taxable and treated as income. However, when you sell your own home it is tax free. Yes, there is no tax payable on your principal place of residence.

Certainly shares have a discounted capital gains tax after 12 months, but there is no time constraint on selling your principal place of residence for tax purposes. You can live in a house for one day and still pay no tax when you sell.

## Should I build or buy?

In some cases it is cheaper to purchase an existing home, especially if the home is less than six years old. Quite often an existing home's landscaping has matured and, in many cases, there are added benefits such as a pool.

Building a new home is much like buying a new car. You are the decision maker and designer, and you choose the colours and specifications to suite your tastes. Best of all, you are the first to live in this home and this home is a reflection of you.

## Your first home and stamp duty

Discounts to stamp duty apply to first-home buyers, but these do come with certain obligations.

In Queensland, first-home buyers are required to live in their home for a full 12 months if they are to receive the stamp duty concession.

They cannot sell all or part of the property in that time.

The stamp duty discount applies to homes valued at $550,000 or less.

## Home for life

No matter whether you decide to live in your home for the entire 30-year home loan period, or sell every 7.6 years (the average time a person sells their home), if you continually stay in the property market you will eventually own your own home.

The way I see it, renting is a young person's game that becomes quite a burden as we get older.

The retirement age in Australia is 60 for women and 65 for men, although the federal government wants to increase this age because the country cannot afford to pay the pension at current levels. At the moment, Australians on average don't have enough super to support them in retirement which means that most of us will rely on the age pension to meet our living expenses. If you don't have to pay rent or a mortgage, you will be better off than most.

My mother is one of those lucky pensioners. She owns her own home and manages to survive, although sometimes struggles. My mother has all the same living expenses as someone who is renting, including insurance, electricity, phone, car insurance, car registration and groceries.

But there is one big difference. While my mother has to fork out about $3500 a year on council rates, water rates, house insurance and building maintenance, it pales into insignificance compared to rent. The average rent paid today is $500 per week, which equates to $26,000 per year when rent concessions are not taken into account.

My mother is able to survive on her pension purely because she owns her own home. She doesn't have to find $500 a week. She lives in her house for only $67.30 a week.

**That is the benefit of home ownership in a nutshell.**

Ask yourself, do you want to **"work to live"** or "live to work"?

Thousands of people are homeless and destitute because they have no assets, while those that are on the rent treadmill will need to work much later in life to make ends meat.

If you have an income and if you are currently paying rent, get out of the struggle cycle and invest in your future.

It's not going to cost you any more to achieve home ownership. If you buy and sell the right property, you will always make a profit as I did. This will reduce your mortgage and home ownership will come sooner.

You will save tens of thousands of dollars in interest. This money can be spent on yourself. How about that holiday, new car, caravan or boat? You now have money to live life and enjoy it.

I have many development opportunities – house-and-land packages, townhouses and commercial opportunities - that have instant, built-in profits. In other words, the properties are worth more once finished than you will pay for it.

I can personally show you how entering the property market will change your life forever.

Due to our large buying power and long-term relationships with our tradies and suppliers, we will always buy much cheaper than the owner-builder. If you are looking at either building or renovating, give us a call on 1300 55 25 03.

If you have any questions regarding new homes, please contact me at Kline Homes on sales@klinehomes.com.au

For any information on renovating and extensions, office refurbishment or body corporate rectification works please contact me at Kline Construction and Developments on enquiries@klineconstruction.com.au